

# Idaho's Trend in General Fund Revenue: Forecasts for FY 2009, FY 2010, and FY 2011

Joint Legislative Committee on  
Economic Outlook and Revenue Assessment

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## General Questions

1.How will the Idaho economy perform in the remainder of FY 2009 and FY 2010, and what impact will this likely have on state tax revenues?

2.How will the national economy perform in the remainder of FY 2009 and FY 2010, and how will this affect Idaho?

3.What areas of the economy will be strong over the next 18 months? Which areas will be weak?

4.Do you know of any companies that are planning on moving operations into or out of Idaho in the next 18 months?

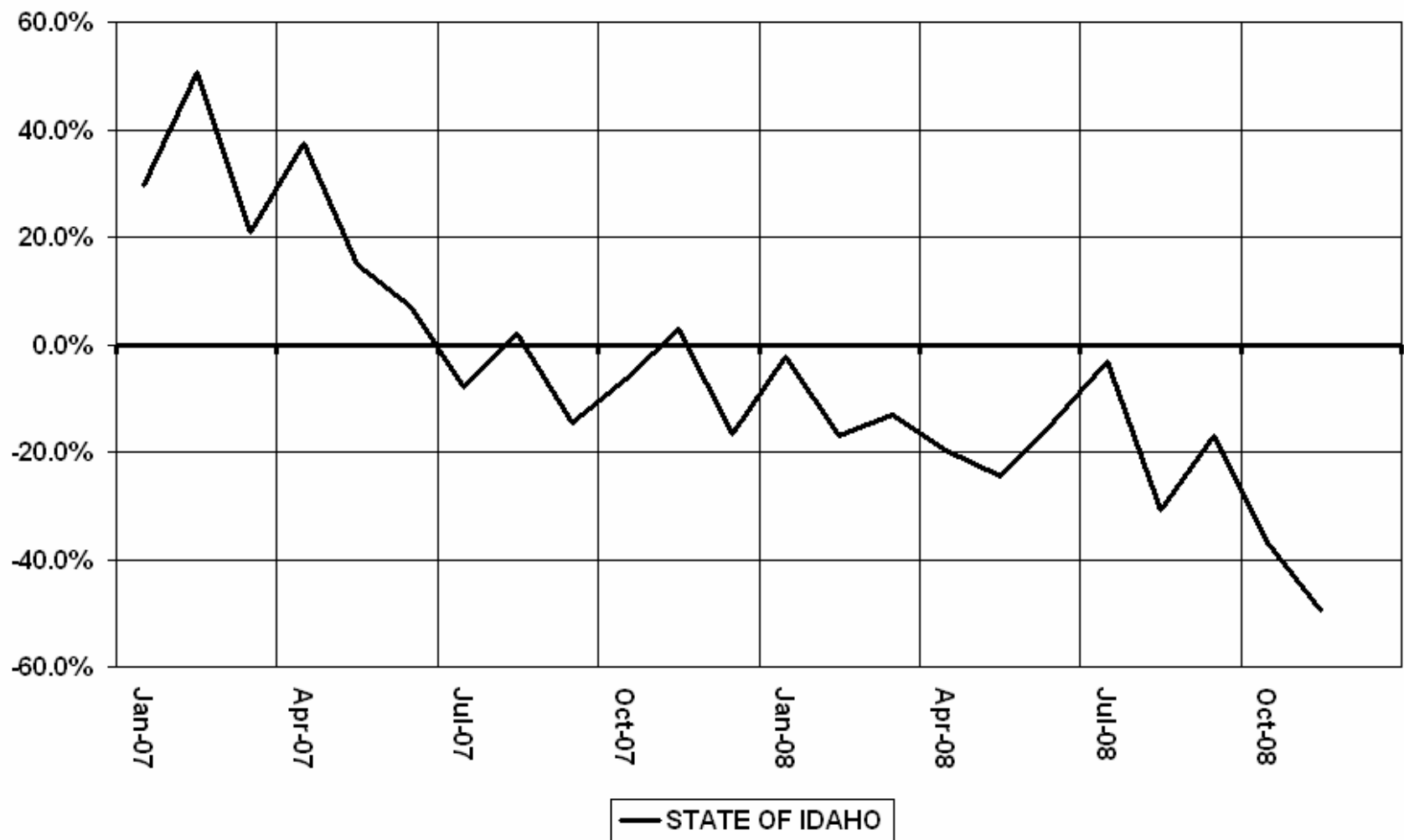
5.What policies should Idaho follow to promote economic growth and higher wages?

The first group of general questions may be ignored if it is outside your area of expertise.

## Intermountain Multiple Listing Service: Ada County



## NEW CAR SALES PERCENTAGE CHANGE YEAR AGO



	Total Employed		Percent Change			
	(thousands)					
	Oct-08		1-mo. <sup>a</sup>	3-mo. <sup>a</sup>	YTD <sup>a</sup>	12-mo.
<b>Idaho</b>						
Total	646.4		-4.5	-4.6	-2.0	-1.7
Natural Resources & Mining	4.3		-55.5	-40.7	-7.8	0.0
Construction	46.3		-28.3	-12.7	-12.0	-10.6
Manufacturing	61.4		-11.0	-8.0	-7.1	-6.3
Trade, Transportation & Utilities	128.1		-17.7	-9.4	-3.9	-3.4
Information	11.3		11.3	7.4	4.4	3.7
Financial Activities	31.9		3.8	-2.5	0.4	-1.5
Professional & Business Svcs.	80.9		11.0	-3.9	-3.9	-3.2
Educational & Health Svcs.	76.0		-3.1	-3.6	2.9	3.1
Leisure & Hospitality	62.9		-1.9	-8.4	-2.1	-2.2
Other Services	19.9		-11.3	0.0	2.5	2.6
Government	123.4		14.7	6.4	3.9	3.4

Source: Federal Reserve Bank of San Francisco

### Unemployment Rates (%)

	<u>Oct-08</u>	<u>Sep-08</u>	<u>Aug-08</u>	<u>Jul-08</u>	<u>Oct-07</u>
Idaho	5.3	5.0	4.6	4.1	2.7
Nevada	7.6	7.2	7.1	6.6	5.1
Utah	3.5	3.5	3.7	3.5	2.8
U.S.	6.5	6.1	6.1	5.7	4.8

Note: Unemployment rates are from the household employment survey; all other data are for nonagricultural payroll employment. All data are seasonally adjusted.

Source: Bureau of Labor Statistics.

## Residential permits – October 2008

	3-mo. average number	Moving average percent change	
		3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Idaho	518.7	-21.2	-41.0
Nevada	1,382.5	-8.4	-44.8
Utah	842.7	-18.8	-47.8

Source: Bureau of the Census.

## Non-residential construction awards – Oct. 2008

	3-mo. average \$ millions	Moving average percent change	
		3-mo. <sup>a</sup>	12-mo. <sup>a</sup>
Idaho	74.4	-37.0	-15.2
Nevada	142.9	-40.1	-27.4
Utah	153.8	-27.9	-24.8

<sup>a</sup> Underlying data are seasonally adjusted moving averages.

Source: F.W. Dodge.

# Delinquency Rates Vary Significantly by Mortgage Type

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## **Idaho: Delinquency and Foreclosure Rates, 1st Qtr 2008**

<b>Mortgage Type</b>	<b>Percent Past Due</b>	<b>Foreclosures Started</b>
<b>Prime Fixed</b>	<b>2.82</b>	<b>.29</b>
<b>Prime ARM</b>	<b>6.78</b>	<b>1.55</b>
<b>Subprime Fixed</b>	<b>15.38</b>	<b>1.80</b>
<b>Subprime ARM</b>	<b>22.07</b>	<b>6.35</b>
<b>FHA</b>	<b>12.72</b>	<b>0.87</b>

Source: Mortgage Bankers Association, National Delinquency Survey, 1<sup>st</sup> Qtr 2008

Source: Carolina Reid, Federal Reserve Bank of San Francisco



## Causes of the Current Economic Crisis

- Easy money, monetary policy 2003-2008
  - Under-estimate of risk in the financial markets
  - Corporate governance tools lacking
  - Household savings rate too low,  
    borrowing too much
  - Federal budget deficit, 2001 tax cuts
  - Other
    - excessive leverage of the financial institutions
    - stock market and housing bubbles
    - high price of oil and agricultural commodities
- (source: Jeffery Frankel, Harvard)

## Specific Questions

1.What are your estimates of state General Fund revenues for FY 2009, FY 2010, and FY 2011 and what evidence do you have to support those estimates?

2.How do you see the economic picture progressing?  
Which sectors are leading it?

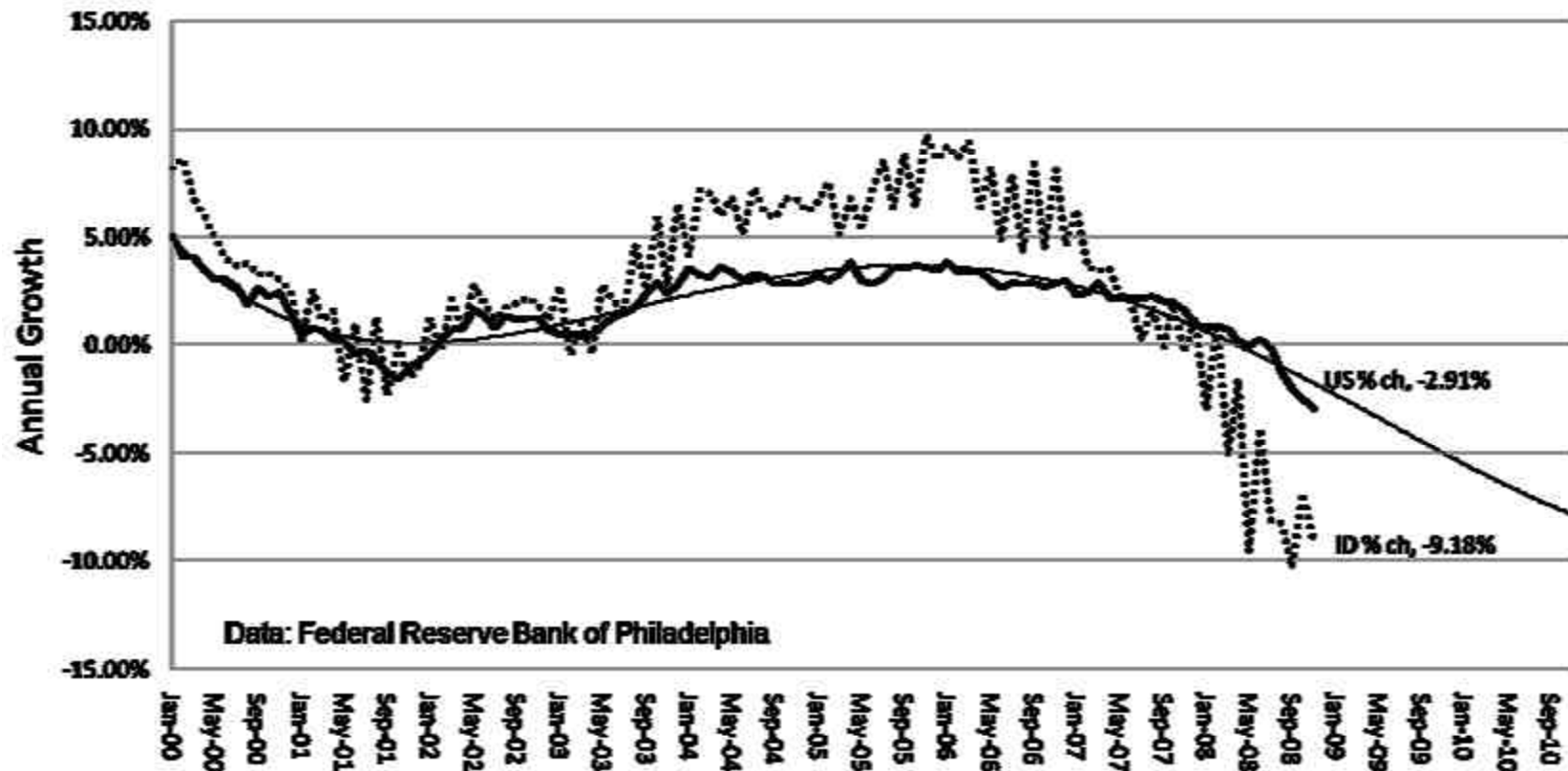
3.To what extent is our economic success dependent on activity in the real estate and construction sectors?

4.To what extent are our state revenues related to activity in the stock market?

In order to help guide your presentation to key areas of committee interest, please be prepared to address the questions in the second group, which are specific to your field of expertise.

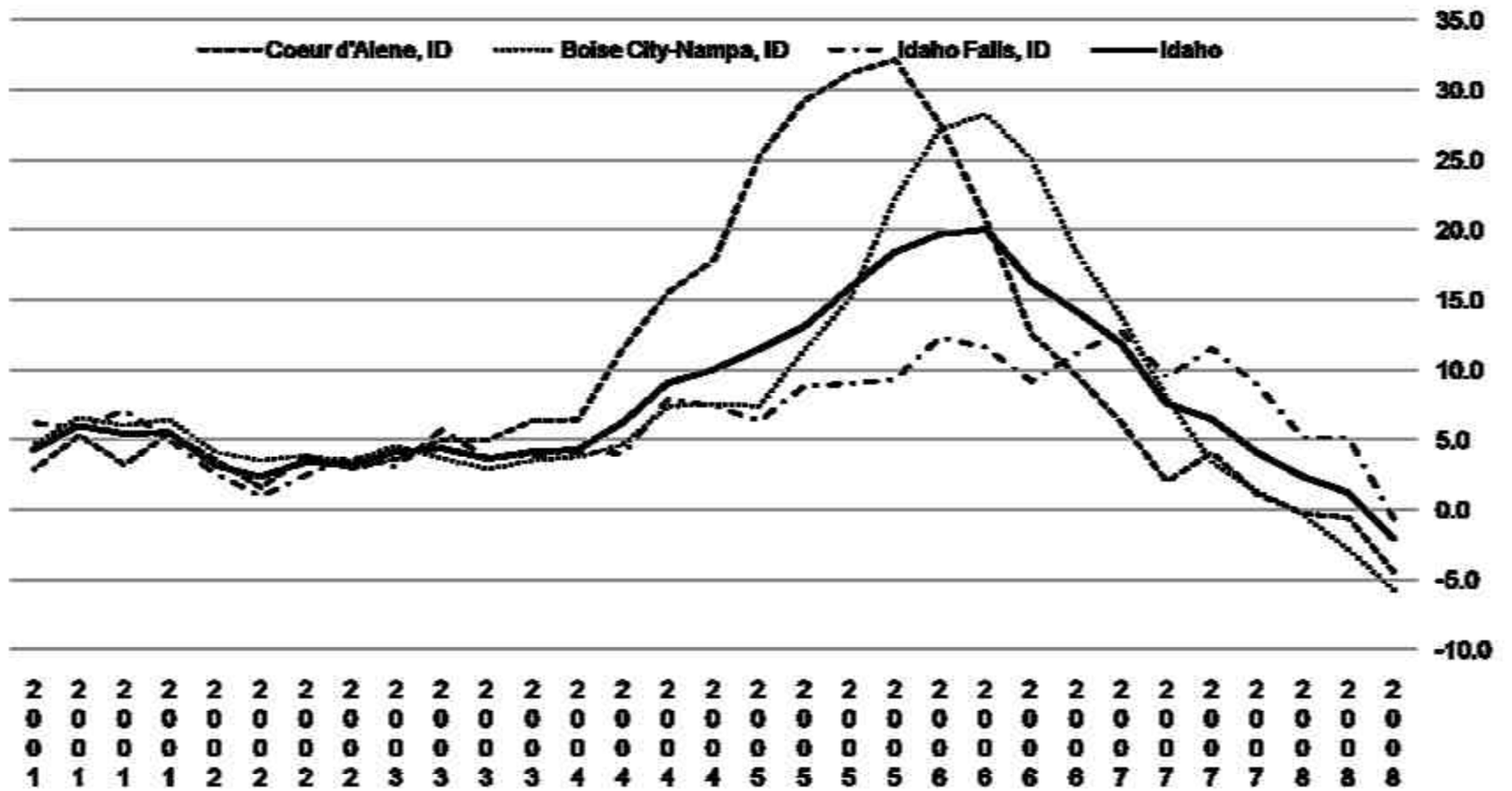
as of Nov. '08

### Percent Change in Current Economic Condition\* of Idaho and the U.S.



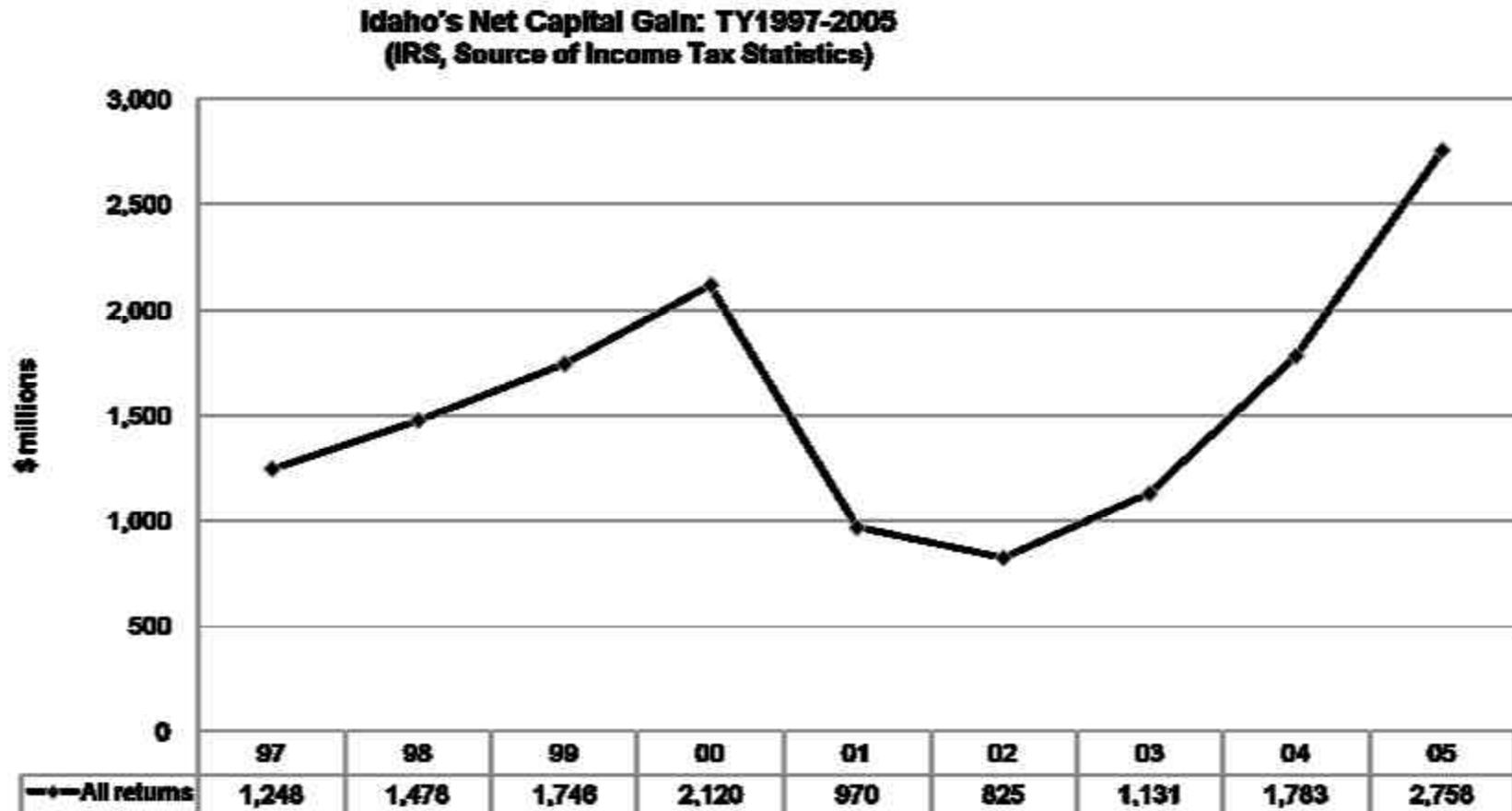
\*Index based on employment, unemployment ,  
wages paid , & avg. hours worked in manufacturing

# **House Price Index:** **(Year-over-year percent change, quarterly, 2001.1 to 2008.3)**

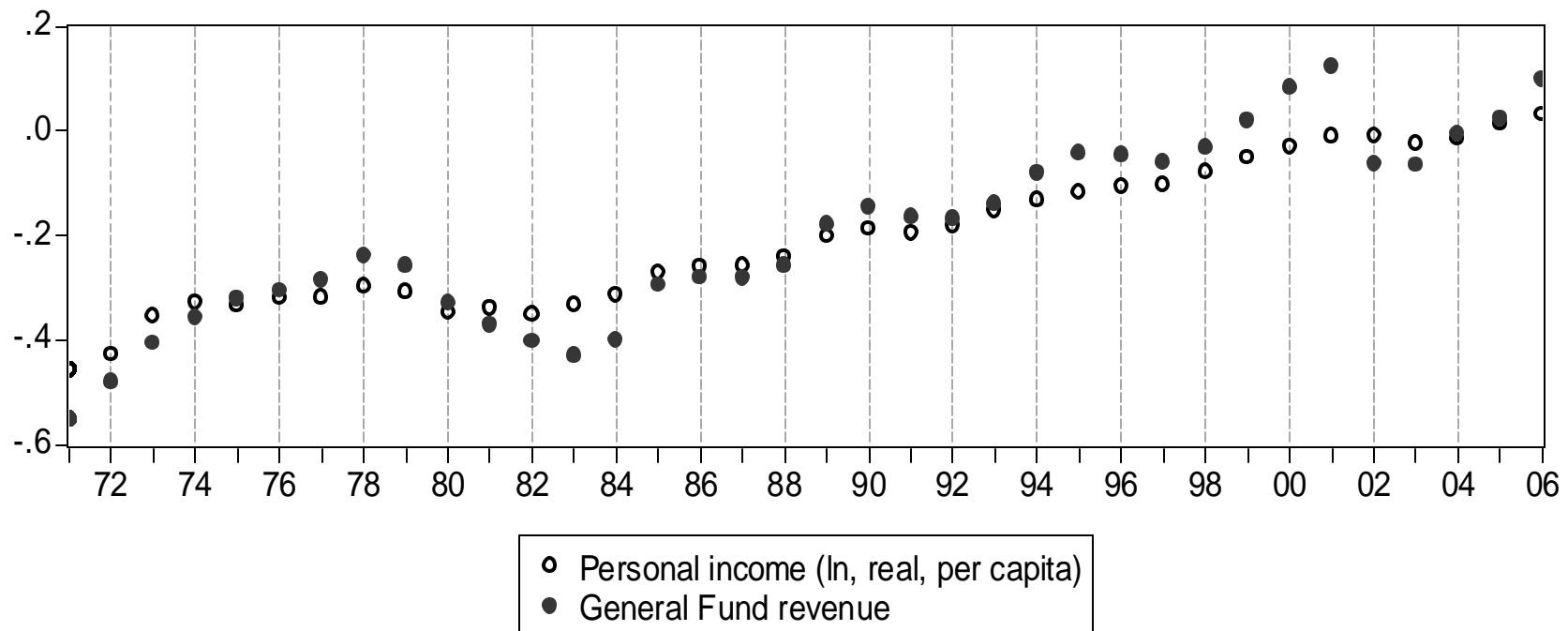


Office of Federal Housing Enterprise Oversight

# Instability in Capital Gains



# Growth of Idaho's General Fund Revenue and Personal Income: FY71 to FY06



	<b>General Fund Revenue Collections: Actuals and Forecast</b>					
	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>
<b>Individual Income Tax</b>	\$ 1,216.49	\$ 1,400.16	\$ 1,430.16	\$ 1,300.00	\$ 1,357.00	\$ 1,480.00
% change	17.5%	15.1%	2.1%	-9.1%	4.4%	9.1%
<b>Corporate Income Tax</b>	\$ 194.13	\$ 190.22	\$ 189.70	\$ 170.00	\$ 174.00	\$ 180.00
% change	3910.0%	-2.0%	-0.3%	-10.4%	2.4%	3.4%
<b>Sales Tax</b>	\$ 880.77	\$ 1,077.46	\$ 1,142.47	\$ 1,060.00	\$ 1,110.00	\$ 1,212.00
% change	-7.4%	22.3%	6.0%	-7.2%	4.7%	9.2%
<b>Cigarette Tax</b>	\$ 7.98	\$ 1.00	\$ 6.54	\$ 7.70	\$ 15.30	\$ 15.30
<b>Tobacco Tax</b>	\$ 6.16	\$ 6.55	\$ 7.20	\$ 7.29	\$ 7.45	\$ 7.77
<b>Beer Tax</b>	\$ 1.99	\$ 2.13	\$ 2.15	\$ 2.06	\$ 2.07	\$ 2.10
<b>Wine Tax</b>	\$ 2.43	\$ 2.48	\$ 2.58	\$ 2.61	\$ 2.65	\$ 2.75
<b>Liquor Distribution</b>	\$ 4.95	\$ 10.24	\$ 8.38	\$ 16.16	\$ 18.91	\$ 21.97
<b>Product Taxes subtotal</b>	\$ 23.50	\$ 22.41	\$ 26.84	\$ 35.82	\$ 46.39	\$ 49.89
% change	3.1%	-4.6%	19.8%	33.5%	29.5%	7.6%
<b>Kilowatt-Hour Tax</b>	\$ 2.29	\$ 2.26	\$ 1.60	\$ 1.80	\$ 1.80	\$ 1.80
<b>Mine License</b>	\$ 0.27	\$ 2.35	\$ 2.52	\$ 1.00	\$ 1.00	\$ 1.00
<b>State Treasurer Interest</b>	\$ 18.12	\$ 17.17	\$ 11.37	\$ 11.66	\$ 12.77	\$ 16.66
<b>Judicial Branch</b>	\$ 4.79	\$ 5.04	\$ 5.33	\$ 5.37	\$ 5.44	\$ 5.57
<b>Insurance Premium Tax</b>	\$ 60.38	\$ 59.78	\$ 56.34	\$ 50.11	\$ 44.59	\$ 48.19
<b>State Police</b>	\$ 1.72	\$ 1.81	\$ 1.92	\$ 1.94	\$ 1.96	\$ 2.02
<b>Secretary of State</b>	\$ 3.02	\$ 3.00	\$ 2.82	\$ 2.85	\$ 2.91	\$ 3.02
<b>Unclaimed Property</b>	\$ 1.99	\$ 3.31	\$ 5.63	\$ 4.40	\$ 4.45	\$ 4.54
<b>Estate Tax</b>	\$ 1.11	\$ 0.12	\$ 0.03			
<b>Other</b>	\$ 22.76	\$ 27.41	\$ 33.11	\$ 28.03	\$ 28.39	\$ 29.01
<b>Miscellaneous Revenue subto</b>	\$ 116.43	\$ 122.25	\$ 120.67	\$ 107.15	\$ 103.32	\$ 111.82
% change	-2.1%	5.0%	-1.3%	-11.2%	-3.6%	8.2%
<b>Total General Fund Collection</b>	\$ 2,431.31	\$ 2,812.49	\$ 2,909.85	\$ 2,672.98	\$ 2,790.70	\$ 3,033.71
% change	5.5%	15.7%	3.5%	-8.1%	4.4%	8.7%

## Idaho's General Fund Revenue by Sources

(nominal \$ million)	Forecast					
	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11
Ind.'l Income Tax	\$1,217	\$1,400	\$1,430	\$1,300	\$1,357	\$1,480
Corp. Income Tax	194	190	190	170	174	180
Sales Tax	881	1,077	1,143	1,060	1,110	1,212
Product Taxes	24	22	27	36	46	50
Misc. Revenue	116	122	121	107	103	112
GFR, trend	2,380	2,750	2,910	2,930	3,000	3,175
GFR, cycle	50	60	0	-255	-210	-140
GFR	\$2,430	\$2,810	\$2,910	\$2,675	\$2,790	\$3035
Year-to-year change	7.0%	15.6%	3.6%	(8.1%)	4.3%	8.8%



## Idaho's General Fund Revenue by Causes

(nominal \$ million)	<b>FY 06</b>	<b>FY 07</b>	<b>FY 08</b>	<b>FY 09</b>	<b>FY 10</b>	<b>FY 11</b>
GFR, Trend base			\$2,845			
Sales Tax Rate Eff.	-6.4%	0.0%	0.0%	0.0%	0.0%	0.0%
C.P.I.	2.4%	3.9%	0.0%	1.5%	2.1%	2.4%
Population	2.4%	2.4%	0.0%	1.2%	1.6%	2.1%
R. P. Income/Capita	3.4%	-0.7%	2.3%	-2.1%	-1.2%	1.0%
Elasticity, GFR/Inc	1.1	1.1	1.1	1.1	1.1	1.1
GFR, trend	2,380	2,750	2,910	2,930	3,000	3,175
GFR, cycle	50	60	0	-255	-210	-140
GFR	\$2,430	\$2,810	\$2,910	\$2,675	\$2,790	\$3035
Year-to-year change	7.0%	15.6%	3.6%	(8.1%)	4.3%	8.8%

## Forecast of the GFR : FY 2010

Let

where

- 1)  $G_r = G_s + G_c + G_p + 1.1 G_Y$       R = revenue (\$ mil.)
- 2)  $4.3 = 0.0 + 2.1 + 1.6 + 1.1 (0.5)$       S = sales tax rate effect
- 3)  $R_1 = R_0 (1 + .043)$       C = consumer price index  
       $= \$2,675 (104.3\%)$       P = population  
       $= \$2,790$       Y = real p. income / capita

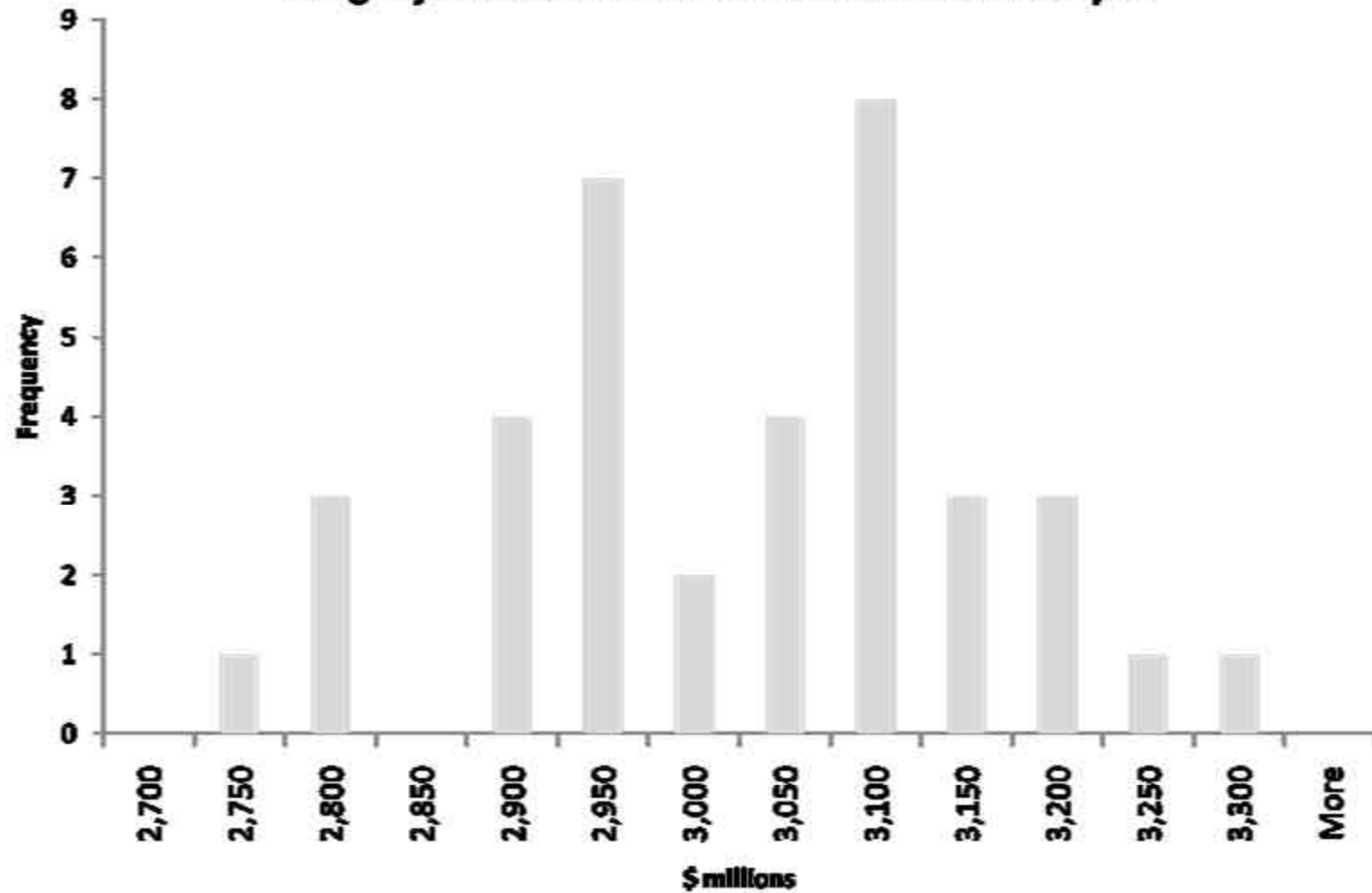
1 = future, 0 = past, G = growth (%)

Where \$2,675 is the forecast GFR for FY 2009

# Interpretation of Forecast

- Equation (1) says that the growth in FY 2010 GFR equals the sum of the growth in the sales tax rate effect, inflation, population, and the product of growth in real personal income per capita and its multiplier.

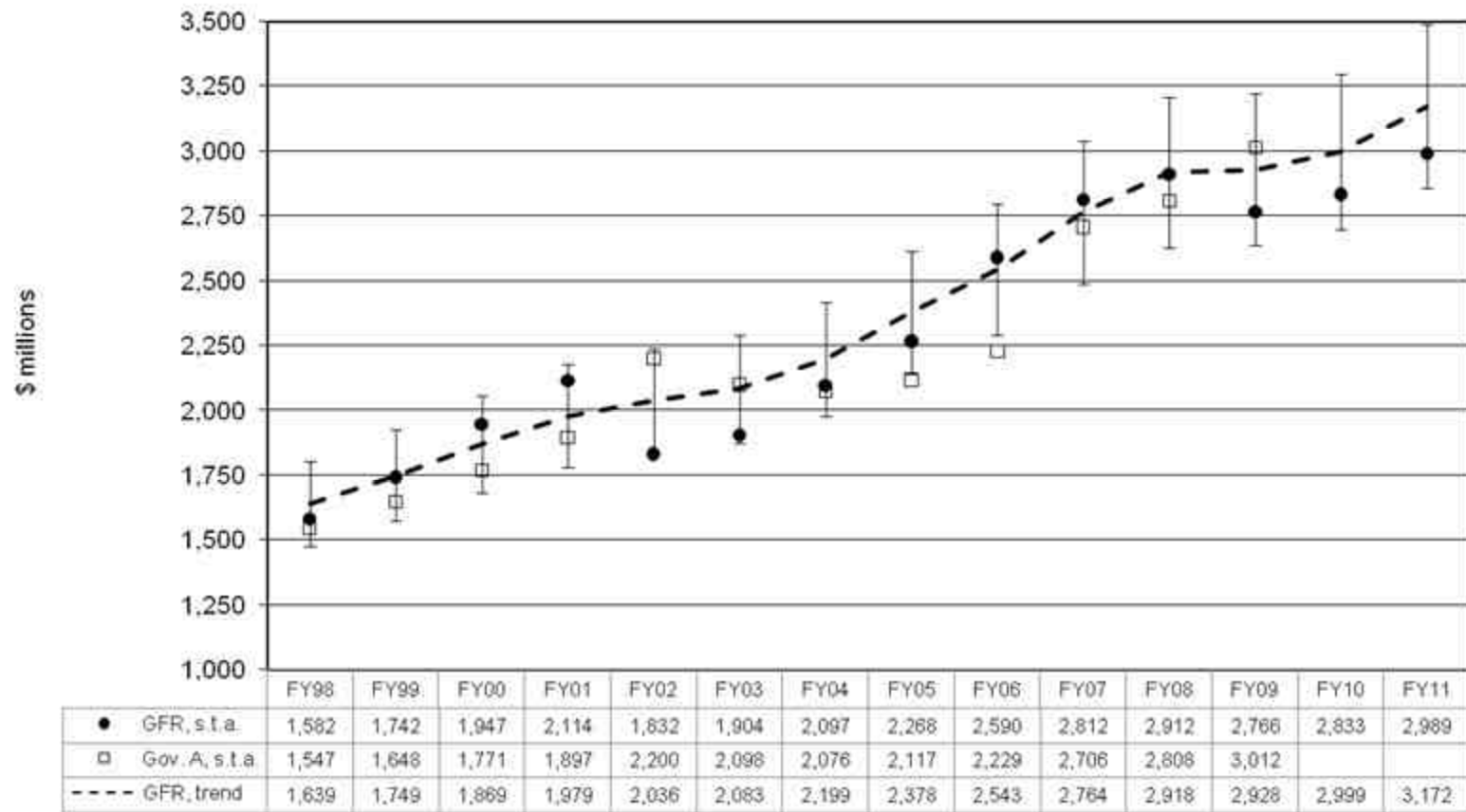
**Idaho's Trend in GFR Forecast Distribution for FY10  
using adjusted GFR from FY71 to FY08 as the base year**



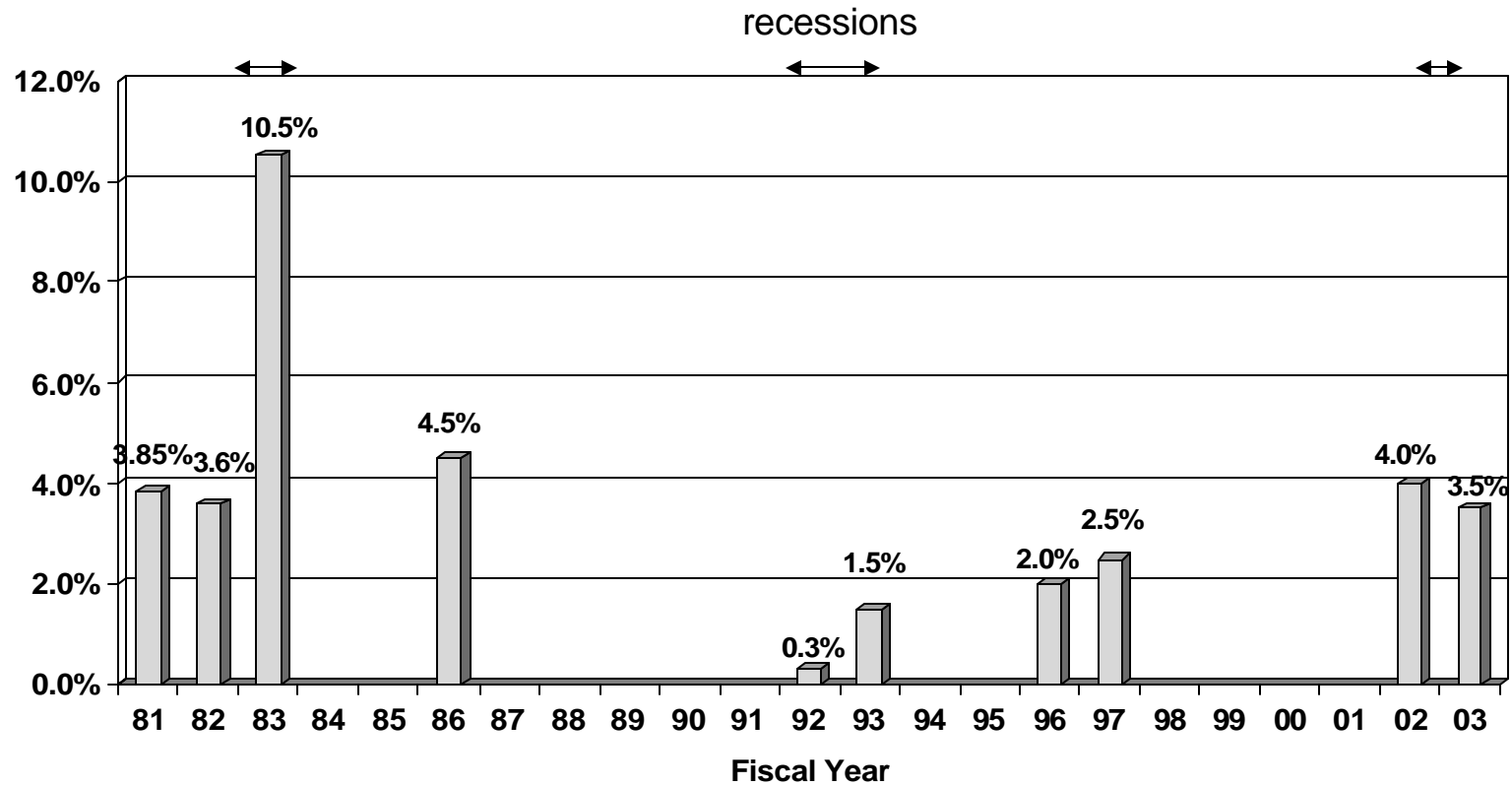
Tay, A. S., and K. F. Wallis. (2000).

Density forecasting: A survey. *Journal of Forecasting*, 19, 235-254.

## Idaho General Fund Revenue Forecasts: FY 1998 to FY 2011



## Idaho GFR Holdback Percentages: FY 1981 - FY 2003



This chart reflects the final holdback or negative supplemental action at the end of the fiscal year. FY 1985 is not reflected because the 3.0% holdback imposed by the Governor at the start of the year was rescinded.

**Source:** Mike Ferguson, Division of Financial Management, Idaho

# Conclusions and Recommendations

- GFR in FY 09 will decrease 8.1% to \$2,675 million, which is \$255 million below trend.
- GFR in FY 10 will increase 4.3% to \$2,790 million, which is \$210 million below trend.
- GFR in FY 11 will increase 8.8% to \$3,035 million, which is \$140 million below trend.
- We recommend that the Legislature use the “rainy day funds” proportionally to the revenue gap below trend, i.e., 40% in FY 09, 35% in FY 10, and 25% in FY11

# Our suggestions for economic growth

- a) maintain a wide and stable tax base
- b) extend the sales tax base to services
- c) consider a temporary sales tax rate increase
- d) consider a temporary income tax surcharge
- e) continue to fully fund K-12 and higher education
- f) regulate subprime ARM mortgages



# Data Sources

- Personal income:  
Regional Economic Information System, Bureau of Economic Analysis,  
U.S. Department of Commerce
- Consumer price index:  
All Urban Consumers, Seasonally Adjusted, All items, Bureau of Labor  
Statistics, U.S. Department of Labor
- Population and estimates of future income, cpi, and population:  
October 2008 Idaho Economic Forecast, Division of Financial  
Management, State of Idaho
- General Fund Revenue FY 08:  
Idaho Outlook, July 2008, Division of Financial Management, State of  
Idaho